



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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To: The Honorable Donald L. Carcieri, Governor  
The Honorable William J. Murphy, Speaker of the House  
The Honorable Joseph A. Montalbano, President of the Senate

From: Rosemary Booth Gallogly, State Budget Officer  
Michael O'Keefe, House Fiscal Advisor  
Russell C. Dannecker, Senate Fiscal Advisor

Date: June 30, 2005

Subject: May 2005 Consensus Revenue Estimating Conference

**Summary**

The Revenue Estimating Conference Conference met April 29, May 2, 5, and 9 in open public meetings. The conferees issued revised estimates for FY 2005 and FY 2006 revenues. These revised estimates are shown in the attached tables. The adopted estimates reflect current projections for the Rhode Island economy and are based on current statutory provisions with respect to rates and assessments, including the expiration of the hospital licensing fee in FY 2006 and the impact of historic preservation tax credits on revenue collections.

At the May 9 meeting, the Conference revised the consensus revenue estimates for FY 2005 and FY 2006. The conferees increased the FY 2005 revenue estimates by \$55.8 million over November FY 2005 estimates. The FY 2005 revised revenue estimate is \$3.033 billion. The conferees estimated FY 2006 growth of 1.5 percent, leading to total general revenues of \$3.077 billion, an increase of \$44.3 million over both November estimates for FY 2006 and May estimates for FY 2005.

The Consensus Economic Forecast was adopted at the April 29 meeting after the principals heard testimony from its economic consultants, Dr. David M. Pace, Economist, U.S. Regional Service for Global Insight and Dr. Steven G. Cochrane, director of Regional Economics for Economy.com, Inc. Both economic consultants provided testimony on the recent performances of the U.S. and Rhode Island economies as well as their respective firm's forecasts. In general, the consultants agreed that the State's economy is on a path of growth for the period FY 2005 – FY 2008, but they disagreed as to how sensitive Rhode Island's economy will be to increasing downside risks. In addition, Robert J. Langlais of the Rhode Island Department of Labor and Training gave testimony on the performance of the Rhode Island labor market over the past 12 months.

On May 2, the conferees heard testimony from Michael A. McNamara, Finance Administrator, and Sandra Lee, Controller, of the Rhode Island Lottery. They indicated that Powerball sales were down \$9.1 million on a year-to-date basis as a result of the lack of large jackpots, those of \$200.0 million or more, being generated since December. In addition, Mr. McNamara and Ms. Lee testified that the Lottery's monitor games, which consist primarily of Keno, had seen a sharp decline in revenue after the State's smoking ban went into effect in March. Further, the Lottery's representatives informed the conferees that Lincoln Park had installed and activated the final 459 authorized video lottery terminals (VLTs) available to it on April 30 and that Newport Grand was anticipating installing and activating 50 more VLTs by July 1. Finally, Richard Coffey and Bennett E. Nemser of the Office of the General Treasurer provided testimony on the performance of the State's unclaimed property program. They indicated that total revenues would be down slightly in FY 2005 and FY 2006 as compared to their November estimates.

On May 5, R. Gary Clark, the state's Tax Administrator, testified before the Conference concerning tax collections for the FY 2005 year-to-date period through April. Mr. Clark told the principals that the last April deposit of \$4.0 million had not been posted to either the April Statement of Revenue or the Division of Taxation's monthly figures report that is distributed to the conferees. In addition, Mr. Clark noted that non-resident shareholder withholding payments in tax year 2004 totaled \$7.2 million with 32.0 percent of that coming from people who had never filed a Rhode Island income tax return previously. Finally, Mr. Clark updated the Conference on the State's Historic Preservation Tax Credits program and indicated that \$59.0 million worth of HPTC certificates had been issued through the end of 2004 with \$22.8 million having been used as of April 30.

### **Economic Forecast**

#### *The U.S. Economy*

Drs. Cochrane and Pace concur that the U.S. economy is continuing to improve but with a shift in the forces behind growth and new risks in FY 2005 and beyond. To date, the sources of U.S. economic growth have been consumer spending fueled by historically low interest rates that have kept housing and vehicle markets strong and large tax cuts that have boosted disposable income. Both economists expect the drivers of U.S. economic growth to shift to

greater investment spending by businesses and exceptionally strong productivity growth that has helped to improve corporate profitability. In spite of these positive drivers of the U.S. economy, rising energy costs and an increase in inflation have begun to be felt in the money market where increasing interest rates are slowing consumer spending growth. In the near term, and assuming no radical changes in international oil or currency markets, increased U.S. exports to Asia and stronger investment spending by businesses should strengthen employment and personal income growth in the future.

### *The Rhode Island Economy*

The Conference focused its attention on the Rhode Island economy. The State's economic consultants agreed that Rhode Island will maintain steady economic expansion. This is good news given that both Global Insight and Economy.com believe that Rhode Island will face a variety of different risks in the near future. Such risks stem from an array of sources including the relatively higher cost of doing business in New England, future uncertainty about energy prices, worsening household balance sheets, highly leveraged housing markets, and slower population growth than the rest of the country. Having avoided the worst of the national recession, Rhode Island has not experienced a surging economic recovery but rather has been trending upward at a more measured pace.

### *Economy.com*

Dr. Cochrane reported that the Rhode Island economy maintains a positive outlook albeit with some risks. Rhode Island's job growth has been solid with a slight downward revision after release of the March benchmark values by the U.S. Bureau of Labor Statistics. Both Connecticut and Massachusetts were revised upward more substantially recategorizing their economies as improving and expanding. This is a good sign for Rhode Island's economy as previously it had been the only southern New England economy to be categorized this way. Another positive sign for the Rhode Island economy is the fact that employment in business/professional, finance and information services showed much stronger growth than in FY 2004 and FY 2005 than previously believed. Further, the strong growth in these sectors was broad-based with both Connecticut and Massachusetts experiencing similar upward revisions in the employment estimates. Rhode Island's biotechnology-based employment also improved as Amgen expanded its manufacturing presence in the state. One area of concern noted by Dr. Cochrane was the decline in Rhode Island retail trade employment. This decrease is reflective of the decrease in consumer confidence in the region and has been a drag on sales and use tax collections. In addition, Economy.com noted that speculation in the Rhode Island real estate market had picked up with increased purchases of investment property and second homes by non-residents. Dr. Cochrane concluded by noting that the risk to the Rhode Island economy of the red hot housing market is tempered by the fact that the State's high levels of construction employment are due in large part to public infrastructure projects vs. residential housing construction and the fact that delinquency rates on consumer loans in Rhode Island remain well below the national average.

### *Global Insight*

Dr. Pace reported that Rhode Island annualized total employment in the first quarter of CY 2005 was up 1.7 percent from the first quarter of CY 2004. This was a strong jump from the 0.1 percent annual growth rate experienced in the fourth quarter of 2004 vs. the same period in 2003. Dr. Pace noted that there has been a "sharp upswing" in growth in financial service employment likely reflecting the expansion of Bank of America and Citizens call center operations in the state. In addition, Dr. Pace stated that his assessment of the Rhode Island housing market is that there is a low risk for a hard landing in housing prices due to the lack of housing supply in the state. He noted that the median price of a single family house in Rhode Island had risen 18.0 percent in 2004 but that rising interest rates should dampen house price appreciation in the future. One area where Dr. Pace differs markedly from Dr. Cochrane was on the impact of high energy prices on the Rhode Island economy. Dr. Pace noted that high gasoline prices are not as much of a problem for Rhode Island in that transportation energy costs account for only 2.2 percent of Gross State Product, the 46<sup>th</sup> lowest percentage in the country. With respect to residential energy costs, however, Dr. Pace sees greater risk for the Rhode Island economy. In particular, he noted a Federal Reserve Bank of Boston study that high heating oil costs over the past two winters had the effect of decreasing consumer spending in New England by 0.6 percent during that time. He further noted that Rhode Islanders are tenth in the nation in terms of personal income spent on residential energy, at 2.4 percent and 4<sup>th</sup> in the nation on percentage of personal income spent on home heating oil. Overall, Global Insight expects Rhode Island to continue with steady expansionary growth led by employment growth in business and professional services and finance while total employment in education and healthcare services is to remain prominent at 20.0 percent of total employment.

### *Department of Labor and Training*

Rhode Island's unemployment rate was highest at the beginning of FY 2005, consistently falling from a 5.1 percent seasonally rate in July 2004 to 4.5 percent in March 2005. This level represents a nine-tenths decrease in the unemployment rate compared to March of 2004. Rhode Island's seasonally adjusted unemployment rate has been below that of the United States as a whole for 43 consecutive months. Unemployment insurance benefits saw improvement as a result. The number of final payments for those collecting Unemployment insurance benefits was down by 9.7 percent between January and April 2005 compared to the same period in 2004.

Average annual job totals have grown steadily for Rhode Island, increasing by 5,100 in the first quarter of CY 2005 over the first quarter of CY 2004, 4,100 in CY 2004 over CY 2003, and 4,900 in CY 2003 over CY 2002. The largest gains in the first quarter of CY 2005 have been seen in professional and business services with a 4.8 percent increase in seasonally adjusted employment, leisure and hospitality with a 3.2 percent gain and educational and health services with a 2.7 percent gain. Smaller gains were seen in the financial activities segment and government employment with no change in construction. These gains more than offset drops in manufacturing and trade, transportation and utilities.

### *The Consensus Economic Forecast*

Legislation enacted by the 1998 Assembly amended the Revenue Estimating Conference statutes to require a consensus economic forecast. That forecast appears in the table below.

<b>Annual Growth</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>	<b>CY 2006</b>
Non-farm Employment (000s)	479.4	484.2	488.4	495.2	503.1
Non-farm Employment Growth	0.2	1.0	0.9	1.4	1.6
Personal Income Growth	2.2	3.9	5.7	4.5	4.8
Wage Salaries Income Growth	3.6	5.4	5.0	4.9	5.2
Farm Income Growth	0.0	0.0	0.0	0.0	0.0
Non-farm Business Income Growth	0.0	7.9	7.5	6.9	5.4
Dividends, Interest and Rent Growth	-6.4	-2.4	6.2	3.0	5.0
Total Transfer Payments Growth	5.3	3.1	5.4	4.2	4.5
<b>Rates</b>					
Unemployment Rate	5.1	5.4	5.1	4.4	4.3
Consumer Price Index (US)	1.6	2.3	2.7	2.7	2.2
Ten Year Treasuries	4.6	4.0	4.3	4.8	5.7
Three Month Treasuries	1.6	1.0	1.4	3.2	4.5

  

<b>Annual Growth</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Non-farm Employment (000s)	477.9	481.3	486.5	491.8	499.1
Non-farm Employment Growth	-0.3	0.7	1.1	1.1	1.5
Personal Income Growth	3.3	2.9	4.8	5.1	4.7
Wage and Salaries Income Growth	2.6	4.5	5.0	4.9	5.1
Farm Income Growth	0.0	0.0	0.0	0.0	0.0
Non-farm Business Income Growth	9.6	2.7	9.5	7.2	6.2
Dividends, Interest and Rent	-2.0	-4.7	0.8	4.6	4.0
Total Transfer Payments	9.0	3.6	4.3	4.8	4.4
<b>Rates</b>					
Unemployment Rate	4.8	5.3	5.4	4.8	4.4
Consumer Price Index (US)	1.8	2.2	2.2	2.7	2.5
Ten Year Treasuries	5.0	4.0	4.3	4.5	5.3
Three Month Treasuries	2.2	1.3	1.0	2.3	3.9

With respect to employment growth, the May 2005 Conference projects total non-farm employment growth of 1.1 percent in FY 2005 and 1.5 percent in FY 2006, 0.4 percent lower in FY 2005 and unchanged in FY 2006 from the growth rates agreed upon at the November 2004 Conference. The difference in FY 2005 equates to 1,946 fewer jobs created in FY 2005 and as a result, 2,221 fewer jobs in FY 2006 than estimated in November. Despite the downward adjustment to non-farm employment, wage and salaries income growth has been revised upward from November 2004 estimates by 0.8 percent in FY 2005 and 0.3 percent in FY 2006. Wage and salaries are expected to improve more in line with personal income growth than with employment growth overall. The May 2005 Conference forecasts that

personal income will grow more robustly over the FY 2005 – FY 2006 period than previously estimated, with growth in excess of inflation of 2.4 percent in FY 2005 and 2.2 percent in FY 2006. The FY 2005 prediction is stronger than that of the November 2004 Conference forecast with a projected real personal income growth rate of 2.0 percent. The FY 2006 projected real personal income growth rate is slightly less favorable than that of the November 2004 Conference, which was 2.3 percent. The Conferees forecast consumer price inflation to remain below 3.0 percent for the entire forecast horizon. This is consistent with the inflation forecast of the November FY 2005 Conference. The unemployment rate is projected to fall more than was anticipated in the November 2004 Conference. FY 2005 unemployment projections decreased to 4.8 percent from 5.3 percent and FY 2006 unemployment was revised from 5.1 percent to 4.4 percent. Additionally, dividends, interest, and rent growth has been revised upward from November estimates for FY 2005 and FY 2006 by 2.3 percent and 2.5 percent respectively and business income growth estimates have been increased slightly by 0.2 percent and 0.3 percent for FY 2005 and FY 2006.

### **FY 2005 Revenue Estimates**

The May Revenue Estimating Conference revised FY 2005 total general revenues upward by \$237.9 million when compared to preliminary FY 2004 total general revenues as of May 9, 2005. This revision represents a growth rate of 8.5 percent. Total FY 2005 general revenues adopted at the May Conference were \$3.033 billion.

#### *May Revenue Estimates vs. November 2004 Estimates and Preliminary FY 2004 Collections*

Compared to the November 2004 revenue estimate, **total general revenues** in FY 2005 were revised higher by \$55.8 million or 1.9 percent. The November 2004 estimate of FY 2005 total general revenues was \$2.977 billion. Total taxes in FY 2005 were estimated in May to be \$2.377 billion vs. \$2.319 billion in November, an increase of 2.5 percent. FY 2005 other general revenue sources, including departmental receipts and the lottery transfer to the general fund, were revised down by \$1.7 million in May from November's estimate of \$658.4 million. FY 2005 revenues from total taxes are estimated to increase by 9.1 percent over preliminary FY 2004 collections of \$2.178 billion.

The revised FY 2005 estimate for **personal income taxes** is \$980.6 million and represents growth of 10.1 percent from revised preliminary FY 2004 personal income tax collections and 3.2 percent from the FY 2005 estimate adopted at the November 2004 Conference. The growth rate adopted at the November 2004 conference was 6.6 percent. The largest increases in personal income tax components was in estimated payments at 11.8 percent above preliminary FY 2004 and 12.3 percent above the November estimate, and in final payments at 26.4 percent more than preliminary FY 2004 and 17.4 percent more than the November estimate. Both of these components had shown exceptionally strong growth in year-to-date collections in FY 2005. Personal income taxes are the largest single source of revenue for the State. It should be noted that, while specific amounts were not agreed on, contrary to the November Conference, the personal income tax estimate includes the projected impact of the Rhode Island Historic Preservation Tax Credits on collections.

The Conference's revised FY 2005 estimate of **general business tax** collections is \$301.2 million, a growth rate of 22.3 percent from revised preliminary FY 2004 collections of \$246.2 million. The FY 2005 May Conference's revised estimate is \$38.2 million above the November FY 2005 estimate, a growth rate of 14.5 percent. The primary driver of this upward revision in general business taxes is business corporations taxes which are estimated to increase by 47.4 percent over preliminary FY 2004 and 30.2 percent over the November FY 2005 estimate. In addition, insurance companies' taxes and health provider assessments are projected to grow by nearly 20.0 percent over preliminary FY 2004 collections. It should be noted that, while specific amounts were not agreed on, contrary to the November Conference, the general business tax estimates includes the projected impact of the Rhode Island Historic Preservation Tax Credits on collections.

The State's second largest revenue source remains the **sales and use tax**. The conferees revised the FY 2005 estimate for sales tax revenues to \$849.1 million, an increase of \$26.0 million, or 3.2 percent, over preliminary FY 2004 collections. Relative to the November estimate of FY 2005 sales and use taxes, the May Conference revised FY 2005 estimate is \$14.9 million, or 1.7 percent, less. The decrease in the FY 2005 estimate reflects weakening fiscal year-to date sales tax collections due to decreases in consumer spending partially from rising fuel and home heating costs as well as a slowdown in major purchases paid for with borrowed funds.

The conferees May 2005 revised FY 2005 estimate for **other sales and use taxes** is \$195.2 million, a decrease of \$1.9 million or 1.0 percent, from the November estimate. Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The May Conference FY 2005 estimate is \$19.1 million above preliminary FY 2004 collections, an increase of 10.8 percent. The difference between the revised May FY 2005 estimate and the November estimate is due to a decrease of \$2.0 million in motor vehicle fees and cigarette and alcohol excise taxes. The decrease in motor vehicle fees is directly correlated with the decline in car and light truck sales over the past year. The decrease in cigarette and alcohol excise tax collections are the result of consumption declines due to higher cigarette prices and a lower alcohol sales than had been anticipated.

The Conference's revised FY 2005 estimate for **inheritance, racing and athletics, and realty transfer taxes** is \$50.4 million. The revised May FY 2005 estimate is \$5.4 million, or 12.0 percent, above the November FY 2005 estimate. The increase from the November FY 2005 estimate is primarily a result of the conferees increasing the estimate for inheritance tax collections by \$4.7 million. This increase was based on fiscal year-to-date collections. In addition, the conferees increased the estimate for realty transfer taxes by \$1.1 million, again based on fiscal year-to-date collections. The May FY 2005 other taxes revenues estimate is \$8.5 million higher than preliminary FY 2004 collections.

The estimators adopted a revised estimate of \$294.3 million for FY 2005 **departmental receipts** at the May Conference. These receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues.

The revised May FY 2005 estimate is a decrease of \$2.7 million, or 0.9 percent, from the November FY 2005 estimate. The May FY 2005 estimate for departmental receipts is an increase of \$3.5 million, or 1.2 percent, over preliminary FY 2004 collections.

**Other source revenues** consist of transfers to the general fund from motor fuel taxes deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources, including DEPCO settlement payments. The conferees' revised FY 2005 estimate for these revenue sources is \$362.4 million an increase of \$1.0 million over the November FY 2005 estimate. The increase from November's estimate is due to an upward revision in the other miscellaneous sources of \$10.2 million adopted by the Conference's principals. This increase is due to the payment of \$12.3 million to the Depositors Economic Protection Corporation by various debtors to settle outstanding judgements. The increases in other miscellaneous sources are nearly offset by a downward revision in the gas tax transfer of \$0.2 million, lottery transfer of \$8.0 million, and unclaimed property transfer of \$1.0 million. The FY 2005 revised estimate is \$36.1 million greater than FY 2004 preliminary collections.

The revised FY 2005 estimate for the **lottery transfer** is \$310.0 million, a decrease of \$8.0 million from the November FY 2005 estimate. The revised growth in Lottery receipts in FY 2005 is 10.3 percent over preliminary FY 2004 revenues. The conferees revised FY 2005 estimated growth in the transfers to the general fund from video lottery terminals is 14.8 percent over preliminary FY 2004 revenues, for a total of \$249.7 million. The growth from FY 2004 to FY 2005 does include the expected impact from the introduction of additional video lottery terminals in April 2005 at Lincoln Park but year-to-date there has been no measure of actual revenue changes since the installation of the new machines.

### **FY 2006 Revenue Estimates**

The May Revenue Estimating Conference revised FY 2006 total general revenues upward by \$44.3 million when compared to original FY 2006 total general revenues adopted in November. This revision represents a growth rate of 1.5 percent. Total FY 2006 general revenues adopted at the May Conference were \$3.077 billion, an increase of \$44.3 million, or 1.5 percent, over May revised FY 2005 collections.

#### *May Revenue Estimates vs. November 2004 Estimates and Revised May FY 2005 Estimates*

Compared to the November 2004 revenue estimate, **total general revenues** in FY 2006 were revised higher by \$44.3 million or 1.5 percent. The November 2004 estimate of FY 2006 total general revenues was \$3.033 billion. Total taxes in FY 2006 were estimated in May to be \$2.459 billion vs. \$2.408 billion in November, an increase of 1.5 percent. FY 2006 other general revenue sources, including departmental receipts and the lottery transfer to the general fund, were revised down by \$6.5 million in May from November's estimate of \$624.6 million. FY 2006 revenues from total taxes are estimated to increase by 3.5 percent over May FY 2005 collections of \$2.376 billion.



The revised FY 2006 estimate for **personal income taxes** is \$1.035 billion and represents growth of 5.5 percent from May revised FY 2005 personal income tax collections and 3.5 percent from the FY 2006 estimate adopted at the November 2004 Conference. The growth rate adopted at the November 2004 conference was 5.2 percent. The largest increases in personal income tax components was in income tax withholding payments at 5.8 percent above May revised FY 2005 and 0.3 percent above the November estimate, and in estimated payments at 4.6 percent more than May revised FY 2005 and 15.2 percent more than the November estimate. Personal income taxes are the largest single source of revenue for the State. It should be noted that, while specific amounts were not agreed on, contrary to the November Conference, the personal income tax estimate includes the projected impact of the Rhode Island Historic Preservation Tax Credits on collections.

The Conference's revised FY 2006 estimate of **general business tax** collections is \$302.4 million, a growth rate of 0.4 percent from May revised FY 2005 general business tax collections of \$301.2 million and 11.2 percent from the November FY 2006 adopted estimate. The FY 2006 growth rate adopted at the November 2004 conference was 3.4 percent. The primary driver of the upward revision in general business taxes between November and May is business corporations taxes which are estimated to increase by 19.6 percent over the November FY 2006 estimate. The leveling off in general business taxes between May revised FY 2005 and May revised FY 2006 is due to a projected decrease in business corporations taxes that nearly offsets the modest gains forecast for the other general business tax components. It should be noted that, while specific amounts were not agreed on, contrary to the November Conference, the general business tax estimates includes the projected impact of the Rhode Island Historic Preservation Tax Credits on collections.

The State's **sales and use tax** is projected to be the second largest revenue source in FY 2006. The conferees revised the FY 2006 estimate for sales tax revenues to \$886.0 million, an increase of \$36.9 million, or 4.3 percent, over the May revised FY 2005 estimate. Relative to the November estimate of FY 2006 sales and use taxes, the May Conference revised FY 2006 estimate is \$18.2 million, or 2.0 percent, less. The decrease in the FY 2006 estimate is mostly due to the lower FY 2005 revenue base that resulted from the May revision to FY 2005 sales and use taxes.

The conferees May 2005 revised FY 2006 estimate for **other sales and use taxes** is \$185.7 million, a decrease of \$9.5 million or 4.9 percent, from May revised FY 2005 estimate. Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The May Conference FY 2006 estimate is \$1.4 million below the November FY 2006 estimate, a decrease of 0.7 percent. The difference between the revised May FY 2006 estimate and the November estimate is due to decreases of \$1.5 million in motor vehicle fees and cigarette and alcohol excise taxes. The decrease in the FY 2006 estimates is mostly due to the lower FY 2005 revenue base that resulted from the May revision to FY 2005 other sales and use taxes.

The Conference's revised FY 2006 estimate for **inheritance, racing and athletics, and realty transfer taxes** is \$50.6 million. The difference between the revised May FY 2006

estimate and the November FY 2005 estimate is *deminimus*. The increase of \$4.6 million from the November FY 2006 estimate is attributable to the conferees increasing the estimate for inheritance tax collections by \$4.7 million in FY 2005. That increase was based on 2005 fiscal year-to-date collections. In addition, the conferees increased the estimate for realty transfer taxes by \$800,000 over November, again based on the upward revision to the FY 2005 estimate that was adopted at the May Conference.

The estimators adopted a revised estimate of \$234.9 million for FY 2006 **departmental receipts** at the May Conference. These receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues. The revised May FY 2006 estimate is a decrease of \$59.4 million from the May revised FY 2005 estimate. It should be noted that the conferees are limited to estimating revenues under current law which specifies the expiration of the hospital licensing fee at the end of FY 2005. The May revised FY 2005 estimate for the hospital licensing fee is \$58.6 million. In addition, the disproportionate share ("dish") reimbursement to Slater Hospital will revert to being based on 100.0 percent of statewide "dish" payments from the current level of 175.0 percent at the end of FY 2005. This change is mandated by federal law. At the May 2005 Caseload Estimating Conference, FY 2006 "dish" payment revenues were estimated to decrease by \$10.0 million from estimated FY 2005 levels. Thus, the decrease in May revised FY 2006 departmental receipts is more than accounted for by the expiration of the hospital licensing fee and the change in the "dish" formula. The revised May FY 2006 departmental receipts estimate is a decrease of \$3.1 million, or 1.3 percent, from the November FY 2006 estimate.

The conferees' revised FY 2006 estimate for **other source revenues** is \$383.2 million, a decrease of \$3.4 million from the November FY 2006 estimate. This decrease is a result of a decrease in the estimate for the lottery transfer of \$6.2 million. This is offset by an increase in estimated bond proceeds earnings of approximately \$4.0 million between May revised FY 2006 and November FY 2006. Relative to the May revised FY 2005 estimate other source revenues are projected to increase by \$20.8 million. This increase is due to estimated growth in the lottery transfer of \$40.5 million. The growth in the FY 2006 lottery transfer between November and May is offset by a decrease in other miscellaneous revenues of \$14.5 million. This decrease is due to the fact that in FY 2005 the State received \$12.3 million from delinquent DEPCO borrowers to settle all past debts.

The May revised FY 2006 estimate for the **lottery transfer** is \$350.5 million, a decrease of 1.7 percent from the November FY 2006 estimate. The revised growth in Lottery receipts in FY 2006 is 13.1 percent over May revised FY 2005 revenues. The conferees revised FY 2006 estimated growth in the transfers to the general fund from video lottery terminals is 15.3 percent over May revised FY 2005 revenues, for a total of \$287.8 million. The growth from FY 2005 to FY 2006 does include the expected impact from the introduction of additional video lottery terminals in April 2005 at Lincoln Park and July 2005 at Newport Grand.

### **Impact on the Governor's Proposed Revenues**

As indicated above the change from the November to May estimate for FY 2005 is \$55.8 million and for FY 2006 it is \$44.3 million. The principals of the Revenue Estimating Conference agreed that the Governor's proposed revenue changes that did not require a change in law to be implemented would be included in the May Conference estimate. These items total \$(310,573) for FY 2005 and \$124,860 in FY2006.

In the Governor's FY 2005 Supplemental and FY 2006 Budgets there are certain revenue enhancements, requiring changes in current law, the values of which have changed due to changes in estimates made at the May Revenue Estimating Conference. The conferees estimated that, if all of the Governor's proposed revenue changes were enacted they would now generate \$32,394 more in FY 2005 and \$776,064 more in FY 2006 than when submitted by the Governor.

May 2005 Consensus Estimates	FY 2004 Revised Preliminary		FY 2005 Estimate		FY 2006 Estimate				
Personal Income Tax	\$	890,916,809	9.5%	\$	980,600,000	10.1%	\$	1,034,600,000	5.5%
General Business Taxes									
Business Corporations		75,996,096	21.0%		112,000,000	47.4%		109,000,000	-2.7%
Public Utilities Gross		92,209,614	21.1%		89,000,000	-3.5%		90,000,000	1.1%
Financial Institutions		-7,296,194	-174.4%		-1,100,000	-84.9%		100,000	-109.1%
Insurance Companies		43,418,735	-15.3%		51,700,000	19.1%		52,400,000	1.4%
Bank Deposits		1,579,935	-6.9%		1,600,000	1.3%		1,640,000	2.5%
Health Care Provider		40,317,507	43.3%		48,000,000	19.1%		49,300,000	2.7%
Sales and Use Taxes									
Sales and Use		823,121,943	5.9%		849,100,000	3.2%		886,000,000	4.3%
Motor Vehicle		47,412,677	0.3%		46,500,000	-1.9%		47,700,000	2.6%
Motor Fuel		877,113	-14.2%		1,000,000	14.0%		1,000,000	0.0%
Cigarettes		117,418,114	24.4%		136,700,000	16.4%		125,600,000	-8.1%
Alcohol		10,342,162	2.8%		11,000,000	6.4%		11,400,000	3.6%
Controlled Substances		-	-		-	-		-	-
Other Taxes									
Inheritance and Gift		23,904,508	-1.8%		31,700,000	32.6%		31,700,000	0.0%
Racing and Athletics		4,939,874	0.0%		4,200,000	-15.0%		4,020,000	-4.3%
Realty Transfer		13,036,709	33.3%		14,500,000	11.2%		14,900,000	2.8%
Total Taxes		2,178,195,602	8.2%		2,376,500,000	9.1%		2,459,360,000	3.5%
Departmental Receipts									
Departmental Receipts		290,768,971	0.2%		294,300,000	1.2%		234,900,000	-20.2%
Gas Tax Transfer		8,398,244	-67.1%		9,400,000	11.9%		9,520,000	1.3%
Other Miscellaneous		19,705,661	-89.3%		26,950,000	36.8%		12,450,000	-53.8%
Lottery		281,141,647	18.9%		310,000,000	10.3%		350,500,000	13.1%
Unclaimed Property		17,042,121	101.5%		16,000,000	-6.1%		10,700,000	-33.1%
Total General Revenues	\$	2,795,252,246	1.4%	\$	3,033,150,000	8.5%	\$	3,077,430,000	1.5%

May 2005 versus November 2004 Consensus Estimates	May 2005 FY 2005 Estimate	Change from November 2004 FY 2005	May 2005 FY 2006 Estimate	Change from November 2004 FY 2006
<b>Personal Income Tax</b>	\$ 980,600,000	\$ 30,700,000	\$ 1,034,600,000	\$ 35,400,000
<b>General Business Taxes</b>				
Business Corporations	112,000,000	26,000,000	109,000,000	17,900,000
Public Utilities Gross	89,000,000	(2,400,000)	90,000,000	(2,400,000)
Financial Institutions	-1,100,000	-	100,000	-
Insurance Companies	51,700,000	10,000,000	52,400,000	9,700,000
Bank Deposits	1,600,000	-	1,640,000	40,000
Health Care Provider	48,000,000	4,600,000	49,300,000	5,200,000
<b>Sales and Use Taxes</b>				
Sales and Use	849,100,000	(14,900,000)	886,000,000	(18,200,000)
Motor Vehicle	46,500,000	(600,000)	47,700,000	(300,000)
Motor Fuel	1,000,000	150,000	1,000,000	125,000
Cigarettes	136,700,000	(800,000)	125,600,000	(500,000)
Alcohol	11,000,000	(600,000)	11,400,000	(700,000)
Controlled Substances	-	-	-	-
<b>Other Taxes</b>				
Inheritance and Gift	31,700,000	4,700,000	31,700,000	4,200,000
Racing and Athletics	4,200,000	(400,000)	4,020,000	(450,000)
Realty Transfer	14,500,000	1,100,000	14,900,000	800,000
<b>Total Taxes</b>	<b>2,376,500,000</b>	<b>57,550,000</b>	<b>2,459,360,000</b>	<b>50,815,000</b>
Departmental Receipts	294,300,000	(2,700,000)	234,900,000	(3,100,000)
Gas Tax Transfer	9,400,000	(160,000)	9,520,000	(80,000)
Other Miscellaneous	26,950,000	10,151,000	12,450,000	3,984,000
Lottery	310,000,000	(8,000,000)	350,500,000	(6,200,000)
Unclaimed Property	16,000,000	(1,000,000)	10,700,000	(1,100,000)
<b>Total General Revenues</b>	<b>\$ 3,033,150,000</b>	<b>\$ 55,841,000</b>	<b>\$ 3,077,430,000</b>	<b>\$ 44,319,000</b>